

ARTICLE 4. FLOW OF FUNDS.

Section 401. Funds. There was heretofore created in the Prior Bond Ordinance the following funds and accounts:

- (a) City of Taylorsville Water and Sewer Revenue Fund
- (b) City of Taylorsville Water and Sewer Revenue Bond Second Lien Sinking Fund
- (c) City of Taylorsville Water and Sewer Debt Reserve Fund
- (d) City of Taylorsville Water and Sewer Operation and Maintenance Fund

All of the Funds shall be maintained with the Depository Bank so long as any Current Bonds remain outstanding.

Section 402. Flow of Funds. All proceedings preliminary to and in connection with the issuance of the Outstanding Bonds, including provisions made for (i) the receipt, custody and application of the proceeds of the Outstanding Bonds; (ii) the operation of the System on a revenue-producing basis; (iii) the segregation, allocation and custody of the revenues derived from the operation of the System; (iv) the enforcement and payment of the Outstanding Bonds and (v) the depreciation of the System; and all other covenants for the benefit of Bondowners set out in the Prior Bond Ordinance, are hereby ratified and confirmed and shall continue in force and inure to the security and benefit of the Outstanding Bonds, the same as if such provisions and proceedings were set out in full herein; provided, further, that after the issuance of the Current Bonds, the income and revenues of the System shall be collected, segregated, accounted for and distributed as follows:

A. Revenue Fund. The City covenants and agrees that it will continue to deposit in the Revenue Fund, promptly as received from time to time, all revenues of the System, as same may be extended and improved from time to time. The moneys in the Revenue Fund shall continue to be used, disbursed and applied by the City only for the purpose and in the manner and order of priorities specified in the Prior Bond Ordinance, as hereinafter modified by this Ordinance, all as permitted by the Act, and in accordance with previous contractual commitments.

B. Debt Service Requirements of KIA Loans. There shall next be transferred from the Revenue Fund such funds as are required by the terms of the Assistance Agreement to be so deposited in order to meet the debt service requirements on the KIA Loans.

C. Second Lien Sinking Fund. At or after the time that the Current Bonds have been delivered, there shall be transferred from the Construction Account into the Second Lien Sinking Fund an amount sufficient (currently estimated at \$14,000) to provide for capitalized interest during the construction of the Project, if and to the extent not theretofore expended in paying interest on interim financing and if and to the extent then needed to pay interest during the remaining period of construction of the Project.

After the monthly transfers required in the preceding paragraphs have been paid from the Revenue Fund, there shall next be transferred monthly from said Revenue Fund and deposited into the Second Lien Sinking Fund on or before the 20th day of each month, for payment of interest on and principal of the Current Bonds and the Prior Second Lien Bonds, a sum equal to the total of the following:

- (1) An amount equal to one-sixth ($1/6$) of the next succeeding six-month interest payment to become due on the Current Bonds and the Prior Second Lien Bonds then outstanding, plus
- (2) A sum equal to one-twelfth ($1/12$) of the principal of any Current Bonds and the Prior Second Lien Bonds maturing on the next succeeding January 1.

The Second Lien Sinking Fund is hereby pledged for the payment of the interest and the principal of the Current Bonds and the Prior Second Lien Bonds, but subject to the vested rights and priorities of the KIA Loans.

D. Debt Reserve Fund. It is hereby determined that upon the issuance of the Current Bonds, and upon completion of the Project, as certified by the Engineers and by the RD, there shall next be transferred from the Revenue Fund the sum of at least \$470 each month which shall be deposited into the Debt Reserve Fund until there is accumulated in such Debt Reserve Fund the sum of at least \$56,400, which amount shall be maintained, and when necessary, restored to said sum of \$56,400, so long as any of the Current Bonds are outstanding and unpaid. Said deposits are in addition to the requirements of the Prior Bond Ordinance.

As further security for the Bondowners and for the benefit of the City, it has been and is hereby provided that in addition to the monthly transfers required to be made from the Revenue Fund into the Debt Reserve Fund, there shall be deposited into said Debt Reserve Fund all proceeds of connection fees collected from potential customers (except the amounts necessary to pay the actual costs and service connections applicable to said potential customers) to aid in the financing of the cost of future extensions, additions and improvements to the System, plus the proceeds of any property damage insurance (not otherwise used to replace damaged or destroyed property); and any such amounts or proceeds so deposited shall be used solely and only for the purposes intended.

Moneys in the Debt Reserve Fund may be withdrawn and used by the City, upon appropriate certification of the City Commission, for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, renewals and replacements not included in the annual budget of current expenses and/or of paying the costs of constructing future extensions, additions and improvements to the System which will either enhance its revenue-producing capacity or will provide a higher degree of service, and when necessary, for the purpose of making payments of principal and interest on the Bonds if the amount on deposit in the Sinking Fund is not sufficient to make such payments.

E. Operation and Maintenance Fund. There shall next be transferred monthly from the Revenue Fund and deposited into said Operation and Maintenance Fund, sums sufficient to meet the current expenses of operating and maintaining the System. The balance maintained in said Operation and Maintenance Fund shall not be in excess of the amount required to cover anticipated System expenditures for a two-month period pursuant to the City's annual budget.

F. Monthly Principal and Interest Payments if Requested by the RD. So long as any of the Bonds are held or insured by the RD, the City shall, if requested by the RD, make the payments required by this Section 402, in monthly installments to the RD or to the insured Owners of the Bonds.

G. Surplus Funds. Subject to the provisions for the disposition of the income and revenues of the System as set forth hereinabove, which provisions are cumulative, and after paying or providing for the payment of debt service on any subordinate obligations, there shall be transferred, within sixty days after the end of each fiscal year, the balance of excess funds in the Revenue Fund on such date, to the Debt Reserve Fund for application in accordance with the terms of this Ordinance or to the Sinking Fund to be applied to the maximum extent feasible, to the prompt purchase or redemption of Outstanding Bonds.

H. Investment and Miscellaneous Provisions. All monies in the Sinking Fund and the Debt Reserve Fund shall be deposited in the Depository Bank, or such portion thereof as is designated by the City Commission. All monies in the Sinking Fund and the Debt Reserve Fund shall be invested for the benefit of such respective Funds in Certificates of Time Deposit or savings accounts of the Depository Bank or in U.S. Obligations which may be converted readily into cash, having a maturity date prior to the date when the sums invested will be needed for the purposes for which such funds may be expended, provided that to the extent that any amount of the City on deposit in the Depository Bank shall cause the total deposits of the City in said Depository Bank to exceed the amount insured by the FDIC, such excess amount shall be continuously secured by a valid pledge of U.S. Obligations, having an equivalent market value, in conformity with Section 66.480 of the Kentucky Revised Statutes.

Any investments will be a part of the respective Funds from which the proceeds invested are derived, and income from such investments will be credited to such respective Funds. All investments of funds derived from proceeds of the Outstanding Bonds shall be subject to the applicable limitations set out in Section 303 hereof.

All payments into the Funds shall be made on or before the twentieth (20th) day of each month, except that when the twentieth (20th) day of any month shall be a Saturday, Sunday or a legal holiday, then such payment shall be made on the next succeeding business day.

All monies held in any of the Funds shall be kept apart from all other City funds and shall be deposited in the Depository Bank, and all such deposits which cause the aggregate of all deposits of the City therein to be in excess of the amount secured by FDIC, shall (unless invested as herein

authorized) be secured by a surety bond or bonds or by a pledge of U.S. Obligations, having a market value equivalent to such deposit.

The Treasurer shall keep appropriate records as to payment of principal and interest installments and as to payment of principal of and interest on any Bonds.

Section 403. Current Bonds on a Parity with Prior Second Lien Bonds. It is hereby certified and declared that prior to the issuance of any of the Current Bonds, there will have been procured and filed with the City Clerk of the City (i) a letter from the RD to the effect that the RD agrees to the issuance of the Current Bonds ranking on a parity as to security and source of payment with the Prior Second Lien Bonds, all of which are owned by the RD, together with (ii) a certification signed by the RD to the effect that a legend has been typed, stamped or otherwise affixed on each of the Prior Second Lien Bonds held by the RD, evidencing the agreement of the RD as the then Owner of the Prior Second Lien Bonds, to the issuance of the Current Bonds so as to rank on a parity with the Prior Second Lien Bonds, such legend to be in substantially the following form:

The holder of this Bond has consented to the issuance of \$1,410,000 of City of Taylorsville Water and Sewer Revenue Bonds, Series 2011 ranking on a parity as to security and source of payment with this Bond.

Accordingly, it is hereby found and declared that the Current Bonds shall rank and be payable on a parity with said outstanding Prior Second Lien Bonds from the gross income and revenues of the System, subject to the priority of the KIA Loans.

ARTICLE 5. COVENANTS OF CITY.

Section 501. Rates and Charges. The City shall charge such rates and charges for all services and facilities rendered by the System, which rates and charges shall be reasonable, taking into account and consideration the cost and value of the System, the cost of maintaining, repairing and operating same and the amounts necessary for the payment of principal of and interest on Outstanding Bonds against the System. The City shall charge such rates and charges as shall be adequate to meet the requirements of Articles 4 and 5 hereof.

The City covenants that it will not reduce the rates and charges for the services rendered by the System without first filing with the City Clerk a certification of an Independent Consulting Engineer that the annual net revenues (defined as gross revenues less operating expenses) of the then existing System for the fiscal year preceding the year in which such reduction is proposed, as such annual net revenues are adjusted, after taking into account the projected reduction in annual net revenues anticipated to result from any such proposed rate decrease, are equal to not less than 120% of the average annual debt service requirements for principal and interest on all of the then Outstanding Bonds payable from the revenues of the System, calculated in the manner specified in Section 603 hereof.

Section 502. Books and Accounts; Audit. The City shall maintain proper records and accounts relating to the operation of the System and the City's financial affairs; and the Bondowners, or their authorized representatives, shall have the right at all reasonable times to inspect the facilities of the System and all records, accounts and data relating thereto. An annual audit shall be made of the books and accounts pertinent to the System by a Certified Public Accountant licensed in Kentucky. No later than ninety (90) days after the close of each Fiscal Year, copies of such audit reports certified by such Certified Public Accountant shall be promptly mailed to the RD without request, so long as the Government is the Owner of any of the Bonds, and to any Bondowner that may have made a written request for same.

Monthly operating reports shall be furnished to the RD and to any Bondowner requesting same, during the first two years of operation after completion of the Project, and whenever and so long as the City is delinquent in any of the covenants set out in the Prior Bond Ordinance or this Current Bond Ordinance. Thereafter, quarterly operating reports shall be furnished at all other times to the RD and to any Bondowner requesting the same.

Section 503. System to Continue to be Operated on Fiscal Year Basis; Annual Budget. While any of the Bonds are outstanding and unpaid, and to the extent permitted by law, the System shall continue to be operated and maintained on a Fiscal Year basis.

Not later than sixty (60) days before the end of each Fiscal Year, the City agrees to cause to be prepared a proposed annual budget of operating expenses (the "Proposed Budget") of the System for the then ensuing Fiscal Year, itemized on the basis of monthly requirements. A copy of said Proposed Budget shall be mailed to any Bondowner who may request in writing a copy of such

Proposed Budget and to the RD without request, if the Government is the Owner of any of the Bonds.

For the purpose of the Proposed Budget, operating expenses shall include all reasonable and necessary expenses of operating, repairing, maintaining and insuring the System, but shall exclude depreciation and debt service payments. The City covenants that the operating expenses incurred in any year will not exceed the reasonable and necessary amounts therefor, and that the City will not expend any amount or incur any obligation for operation or maintenance and repair in excess of the amounts provided for operating expenses in the annual budget, except upon resolution by the City that such expenses are necessary to operate and maintain the System.

Not later than sixty (60) days before the end of each Fiscal Year, the City shall prepare an estimate of gross revenues to be derived from the operation of the System for said Fiscal Year, and, to the extent that said gross revenues are insufficient (a) to pay debt service requirements on all Outstanding Bonds during the ensuing Fiscal Year, (b) to accumulate and maintain all required reserves enumerated herein and (c) to pay operating expenses, the City shall revise the rates and charges sufficiently to provide the funds so required.

If the Owners of at least 50% of the principal amount of the Outstanding Bonds, or the Government so long as it is the Owner of any of said Outstanding Bonds, so request, the City Commission shall hold an open hearing not later than thirty (30) days before the beginning of the ensuing Fiscal Year, at which time any Bondowner may appear by agent or attorney and may file written objections to such proposed budget. Notice of the time and place of such hearing shall be mailed at least fifteen (15) days prior to the hearing to each registered Bondowner and to the Government.

The City covenants that annually before the first day of the Fiscal Year, the annual budget for the upcoming Fiscal Year will be adopted substantially in accordance with the Proposed Budget, and that no expenditures for operation and maintenance expenses of the System in excess of the budgeted amount shall be made during such Fiscal Year unless directed by said City by a specific resolution duly adopted.

Section 504. General Covenants. The City, through its City Commission, hereby covenants and agrees with the Owners of the Bonds that:

- (1) It will faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the Commonwealth of Kentucky;
- (2) It will make and collect reasonable and sufficient rates and charges for services and facilities rendered by the System;
- (3) It will segregate the revenues and income from the System and make application thereof consistent with and as provided by this Ordinance;

- (4) Unless the written consent of the Owners of a majority of the principal amount of the Outstanding Bonds has been obtained, the City agrees not to sell, lease, mortgage or in any manner dispose of any integral part of the System, including any and all appurtenances thereto and extensions, additions and improvements that may be made thereto, until all of the Outstanding Bonds shall have been paid or provided for in full, as provided herein; subject to the provisions of Section 607 hereof;
- (5) It will maintain in good condition and continuously operate the System and appurtenances thereto and will charge such rates and charges for the services rendered thereby so that the gross income and revenues will be sufficient at all times (i) to pay the interest on and principal of the Outstanding Bonds as same become due, (ii) to pay the cost of operating and maintaining the System, and (iii) to provide for an adequate depreciation account; and
- (6) It will carry and maintain insurance on properties of the System subject to loss or damage in amounts and against hazards substantially in accordance with the practices of other districts, cities or corporations which own and maintain combined and consolidated water and sewer systems under similar conditions; and so long as the Government is the Owner of any of the Outstanding Bonds, the Government will be listed as co-beneficiary on any such policy; and the City shall further comply with the insurance requirements of Section 506 hereof (involving insurance on motors, tanks and structures).

Section 505. Other Covenants Applicable So Long as RD Owns Any Bonds. So long as the RD shall own any of the Bonds, the City shall comply with such RD regulations as shall be made by the RD, including the furnishing of operating and other financial statements, in such form and substance and for such periods as may be requested by the RD, the carrying of insurance of such types and in such amounts as the RD may specify, with insurance carriers acceptable to the RD and compliance with all of the terms and conditions of the Loan Resolution (RD Form 1780-27) adopted and executed by the City, which is hereby authorized, approved, ratified and confirmed.

Section 506. Insurance on Motors, Tanks and Structures. The City shall (a) immediately after the enactment of this Ordinance and (b) at the time of final acceptance of the Project, insure all electric motors, pumping stations and major structures of the System in an amount recommended by the Engineers and approved by the RD, so long as the RD is the Owner of any of the Bonds, for the hazards usually covered in such area, and shall similarly insure same in an amount recommended by the Engineers, without the necessity of approval by the RD if and whenever the City has Outstanding Bonds against the System and none of such Outstanding Bonds are owned by the RD.

ARTICLE 6. INFERIOR BONDS AND PARITY BONDS.

Section 601. Inferior Bonds. Except as hereinafter provided in this Article, the City shall not, so long as any Bonds are outstanding, issue any additional bonds payable from the revenues of the System unless the security and/or pledge of the revenues to secure such additional bonds are made inferior and subordinate in all respects to the security of the Bonds.

The City expressly reserves the right at any time to issue its bonds or other obligations payable from the revenues of the System and not ranking on a parity basis with the Current Bonds, without any proof of previous earnings or net revenues, provided that the consent of the RD must be obtained prior to the issuance of any inferior bonds so long as the RD owns any of the Bonds, and provided further that, after the initial completion of the Project, such inferior bonds may be issued only for the purpose of providing for future extensions, additions and improvements to the System, and only in express recognition of the priorities, liens and rights created and existing for the security, source of payment and protection of the Outstanding Bonds; provided further, that nothing in this Section is intended to restrict or shall be construed as a restriction upon, the ordinary refunding of all or a portion of the Outstanding Bonds.

Section 602. Parity Bonds to Complete the Project. The City hereby certifies, covenants and agrees that in the event that the cost of completion of the construction of the Project shall exceed the moneys available to the City from any and all sources, the City shall have the right, if necessary, to provide for such excess, and only such excess, through the issuance of Parity Bonds, provided the City has obtained a certification from the Engineers to the effect that it is necessary to issue the desired amount of Parity Bonds in order to enable the City to pay the cost (not otherwise provided) of the completion of the Project, and provided the City has complied with the provisions of Section 603 below or has obtained:

- (a) the consent of the RD if the Government is the Owner of the Prior Bonds at that time or the consent of any other Owners of the Prior Bonds, and
- (b) the consent of (1) the RD if the Government is the purchaser of the Current Bonds or (2) the Owners of at least 75% of the principal amount of the Current Bonds outstanding, if the Current Bonds have been issued, sold and delivered and are held by Owners other than the Government.

Section 603. Parity Bonds to Finance Future Improvements. The City has reserved the right and privilege, and does hereby reserve the right and privilege, of issuing additional Parity Bonds, but only under the conditions specified in this Current Bond Ordinance, which conditions are as follows:

The City further reserves the right to add new combined and consolidated water and sewer facilities and/or to finance future extensions, additions and improvements to the System by the issuance of one or more additional series of Parity Bonds to be secured by a parity lien on and ratably payable on a parity with the Current Bonds, from the revenues of the System, provided:

(a) The facilities to be constructed from the proceeds of the additional Parity Bonds are made a part of the System and their revenues are pledged as additional security for the additional Parity Bonds and for the Outstanding Bonds.

(b) The City is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds.

(c) The annual net revenues (defined as gross revenues less operating expenses), of the then existing System for the Fiscal Year preceding the year in which such Parity Bonds are to be issued, adjusted as hereinafter provided, shall be certified by an independent Certified Public Accountant to be equal at least one hundred twenty percent (120%) of the average annual debt service requirements for principal and interest on all Outstanding Bonds payable from the revenues of the System, plus the anticipated debt service requirements of any Parity Bonds then proposed to be issued. The calculation of average annual debt service requirements of principal and interest on the additional Parity Bonds to be issued shall, regardless of whether such additional Parity Bonds are to be serial or term bonds, be determined on the basis of the principal of and interest on such Parity Bonds being payable in approximately equal annual installments.

(d) The annual net revenues referred to above may be adjusted for the purpose of the foregoing computations to reflect:

(1) any revisions in the System's schedule of rates or charges being imposed on or before the time of the issuance of any such additional Parity Bonds, and

(2) any increase in the annual net revenues to be realized from the proposed extensions, additions and improvements being financed (in whole or in part) by such additional Parity Bonds;

provided all such adjustments shall be based upon and included in a certification of an Independent Consulting Engineer.

(e) Compliance with Section 603(a) through (d) shall not be necessary for the issuance of Parity Bonds if the City has obtained (1) the written consent of the RD for the issuance of such Parity Bonds, if the Government is the Owner of any Outstanding Bonds at the time of issuance of such Parity Bonds and (2) the written consent of the Owners of all of the then Outstanding Bonds, and no other prerequisite need be complied with by the City in order to issue Parity Bonds.

Section 604. Covenants to be Complied with at Time of Issuance of Parity Bonds.

The City hereby covenants and agrees that in the event any Parity Bonds are issued, the City shall:

(a) Adjust the monthly amount to be deposited into the Sinking Fund on the same basis as that prescribed in the provisions establishing such Sinking Fund, to reflect the annual debt service requirements of the Parity Bonds;

(b) Adjust the minimum annual amount to be deposited monthly into the Debt Reserve Fund on the same basis as that prescribed in the provisions establishing such Debt Reserve Fund, taking into account the future debt service requirements of all Bonds which will then be outstanding against the System; and

(c) Make such Parity Bonds payable as to principal on January 1 of each year in which principal falls due and payable as to interest on January 1 and July 1 of each year until the final maturity of such Parity Bonds.

Section 605. Prepayment Provisions Applicable to Parity Bonds. If, in connection with any subsequently issued series of Parity Bonds, it is provided that excess revenues in the Revenue Fund shall be used to prepay Outstanding Bonds in advance of scheduled maturity, or if the City at its option undertakes to prepay Outstanding Bonds in advance of scheduled maturity, it is agreed and understood, for so long as the Government owns any of the Outstanding Bonds, that no such prepayment will be effected without the approval of the RD.

Section 606. Consent of the RD Regarding Future Bonds. Notwithstanding any other provisions of this Ordinance, the City agrees that so long as the Government owns any Outstanding Bonds against and/or payable from the revenues of the System, the City will not issue any future bonds, notes or other obligations against, secured by or payable from the revenues of the System without the written consent of the RD.

Section 607. Priority of Lien; Permissible Disposition of Surplus or Obsolete Facilities. The City covenants and agrees that so long as any of the Bonds are outstanding, the City will not sell or otherwise dispose of any of the facilities of the System, or any part thereof, and, except as provided above, the City will not create or permit to be created any charge or lien on the revenues thereof ranking equal or prior to the charge or lien of the Outstanding Bonds. Notwithstanding the foregoing, the City may at any time permanently abandon the use of, or sell at fair market value, any part of the facilities of the System, provided that:

- (a) The City is in compliance with all covenants and undertakings in connection with all of the Outstanding Bonds, and the required reserves for such Outstanding Bonds will have been accumulated;
- (b) The City will, in the event of any such sale, apply the proceeds to either (1) redemption of Outstanding Bonds in accordance with the provisions governing prepayment of bonds in advance of maturity or (2) replacement of the facility so disposed of by another facility, the revenues of which shall be incorporated into the System, as hereinbefore provided;

- (c) The City certifies, in good faith, prior to any abandonment of use, that the facilities to be abandoned are no longer economically feasible of producing net revenues; and
- (d) The City certifies, in good faith, that the estimated net revenues of the remaining facilities of the System for the then next succeeding Fiscal Year, plus the estimated net revenues of the facilities, if any, to be added to the System, comply with the earnings requirements hereinbefore provided in the provisions and conditions governing the issuance of Parity Bonds.

Notwithstanding any other provisions hereof, so long as any Bonds are held by the Government, the City shall not dispose of its title to the System or to any part thereof, without first obtaining the written consent of the RD.

ARTICLE 7. DEFAULT AND CONSEQUENCES.

Section 701. Events of Default. The following items shall constitute an Event of Default on the part of the City:

- (a) The failure to pay principal of the Bonds as and when same shall become due and payable, either at maturity or by proceedings for redemption.
- (b) The failure to pay any installment of interest on the Bonds when the same shall become due and payable or, if any or all of the Outstanding Bonds are owned by the RD, within 30 days thereafter.
- (c) The default by the City in the due or punctual performance of any of the covenants, conditions, agreements and provisions contained in the Bonds, the Prior Bond Ordinance or in this Ordinance.
- (d) The failure to promptly repair, replace or reconstruct facilities of the System that have been damaged and/or destroyed.
- (e) The entering of any order or decree with the consent or the acquiescence of the City, appointing a receiver of all or any part of the System or any revenues thereof; or if such order or decree shall be entered without the acquiescence or consent of the City, its failure to have the order vacated, discharged or stayed on appeal within 60 days after entry.

Section 702. Consequences of Event of Default. Any Owner of the Current Bonds may enforce and compel the performance of all duties and obligations of the City set forth herein. Upon the occurrence of an Event of Default, then upon the filing of a suit by any Owner of the Current Bonds, any court having jurisdiction of the action may appoint a receiver to administer said System on behalf of the City with power to charge and collect rates sufficient to provide for the payment of operating and maintenance expenses and for the payment of principal of and interest on the Outstanding Bonds and to provide and apply the income and revenues in conformity with this Ordinance and with the laws of the Commonwealth of Kentucky.

The City hereby agrees to transfer to any bona fide receiver or other subsequent operator of the System, pursuant to any valid court order in a proceeding brought to enforce collection or payment of the City's obligations, all contracts, and other rights of the City pertaining to the System, conditionally, for such time only as such receiver or operator shall operate by authority of the court. Upon the occurrence of an Event of Default, the Owner of any of the Outstanding Bonds may require the governing body of the City by appropriate order to raise the rates a reasonable amount consistent with the requirements of this Ordinance.

ARTICLE 8. CONTRACTUAL PROVISIONS; MISCELLANEOUS PROVISIONS.

Section 801. Ordinance Contractual with Bondowners. The provisions of this Ordinance constitute a contract between the City and its City Commission and the Owners of the Current Bonds as may be outstanding from time to time; and after the issuance of any of said Current Bonds, no change, alteration or variation of any kind of the provisions of this Ordinance shall be made in any manner which will affect an Owner's rights except as herein provided or except with the written consent of all Bondowners until such time as all of the Current Bonds and the interest thereon have been paid in full or fully provided for; provided that the City Commission may adopt any resolution for any purpose not inconsistent with the terms of this Ordinance and which shall not impair the security of the Owners of the Current Bonds and/or for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective or inconsistent provisions contained herein or in any resolution or other proceedings pertaining hereto.

It is further agreed that the Owners of 75% in principal amount of the Current Bonds at any time outstanding shall have the right to consent to and approve the adoption of resolutions or other proceedings, modifying or amending any of the terms or provisions contained in this Ordinance, subject to the conditions that (a) this Ordinance shall not be so modified in any manner that may adversely affect the rights of the Owners of any of the Prior Bonds, nor in any manner that may adversely affect the rights of any certain Owners of the Outstanding Bonds without similarly affecting the rights of all Owners of such Outstanding Bonds, or to reduce the percentage of the number of Owners whose consent is required to effect a further modification and (b) no such change may be effected without the consent of the RD so long as the RD owns any of the Outstanding Bonds.

Section 802. All Current Bonds are Equal. The Current Bonds authorized herein shall not be entitled to priority one over the other in the application of the income and revenues of the System, or with respect to the security for their payment, regardless of the time or times of their issuance, it being the intention that there shall be no priority among any of the Current Bonds regardless of the fact that they may be actually issued and delivered at different times.

Section 803. City Obligated to Refund Current Bonds Owned by Government Whenever Feasible; Defeasement Prohibited. So long as the Government is the Owner of any of the Current Bonds, if it appears to the Government that the City is able to refund such Current Bonds in whole or in part, by obtaining a loan for such purposes from responsible commercial or private credit sources, or to sell bonds of the City in the open market, at reasonable rates and terms, the City will, upon request of the Government, obtain such loan and/or issue such bonds in sufficient amount to repay the Government and will take all such action as may be required in connection therewith.

In addition, so long as the Government is the Owner of any of the Current Bonds, the City shall not issue any bonds or other obligations for the purpose of defeasing or otherwise terminating the lien of the Current Bonds without immediately prepaying all of the then outstanding Current Bonds.

Section 804. Use of City Streets. The use of all City streets, highways, alleys and public ways for the construction and maintenance of the Project is hereby authorized, without the necessity of further permits, licenses or other certifications from the City.

Section 805. Authorization, Ratification and Confirmation of Approval and Execution of Various Documents. The City Commission hereby authorizes, approves, ratifies and confirms the previous action of the officers of the City in approving and executing various documents related to the financing of the Project, including the following:

- (a) Legal Services Agreement with Bond Counsel.
- (b) Legal Services Agreement with Local Counsel.
- (c) Letter of Intent to Meet Conditions of RD Letter of Conditions (RD Form 1942-46).
- (d) Loan Resolution (RD Form 1780-27).
- (e) Agreement for Engineering Services with the Engineers.

Section 806. Authorization of Condemnation to Acquire Easements and/or Sites. In the event that (a) any necessary deeds of easement to allow construction of the Project over the property of any property owner or (b) any necessary deed to the necessary site of any combined and consolidated water and sewer facility of the Project shall not be obtained through negotiation within 10 days after the date of enactment of this Ordinance and in the event that (1) such combined and consolidated water and sewer lines cannot be located within the right-of-way of the State and/or County road involved, and/or (2) such combined and consolidated water and sewer facilities cannot be located on a site already owned by the City, Local Counsel is hereby authorized and directed to file condemnation actions to obtain such necessary rights-of-way and/or sites forthwith, without further authorization or direction from the City or the City Commission. Local Counsel is further directed to follow the same condemnation procedure in the event that it becomes necessary, through change orders, line extensions and/or errors in the location of property lines and/or property owners, to obtain additional easements, rights-of-way and/or sites for completion of the Project and whenever the necessary deed is not obtained by negotiation at least 10 days prior to the date on which construction is contemplated in the respective easement, right-of-way and/or site.

The City further approves the payment from the funds available therefor allocated to the costs of the Project to pay any judgment award, or compromise, determined by Local Counsel with the acquiescence of the City Commission, toward the costs of such easements, rights-of-way and/or sites; provided, in each instance, that the payment of such funds to satisfy any judgment, award or compromise must first be approved by the RD; and the City Commission further determines that if and to whatever extent the funds available from the proceeds of the financing contemplated by this Ordinance, shall be inadequate to pay any judgment, award or compromise amount for such easements, rights-of-way and/or sites, or if the City is unable to obtain the approval of the RD for

any such payment, the City Commission shall take all reasonably necessary actions, within the powers and authority of the City Commission, to make such additional amount available from all other available City resources.

ARTICLE 9. SALE OF CURRENT BONDS.

Section 901. Sale of Current Bonds. The Current Bonds shall be offered publicly for sale upon the basis of sealed, competitive bids at such time as the City Commission shall designate.

A suggested form of "Notice of Bond Sale", a suggested form of "Official Notice of Sale of Bonds" and a suggested form of "Bid Form", having been prepared in advance by Bond Counsel, and all of such documents having been found to be in satisfactory form, a copy of each is hereby ordered to be filed in the records of the City Clerk with the Minutes of the meeting at which this Ordinance is enacted. The Notice of Bond Sale shall be signed by the City Clerk and may be used for the purpose of publishing notice of the sale of the Current Bonds. Copies of such documents shall be furnished to any interested parties who may request same.

In the event that there is no bid or that all bids are rejected, the City may readvertise the sale pursuant to this Ordinance.

Section 902. Adjustment in Maturities, Prepayment Provisions and Other Dates if Delivery is Delayed. In the event that delivery of the Current Bonds authorized herein is delayed for any reason and the City, with the consent of the Purchaser of the Current Bonds, determines it is in the City's best interest to change the maturities, the applicable prepayment date or any other dates, the City may adjust the same by an Order of the City Commission approving the adjustments.

ARTICLE 10. CONCLUDING PROVISIONS.

Section 1001. Covenant of City to Take All Necessary Action To Assure Compliance with the Code. In order to assure the Owners of the Current Bonds that such Current Bonds shall continue to be legal and that interest thereon will continue to be excludable from gross income for Federal income tax purposes and exempt from all Kentucky income taxation, the City covenants to and with the Owners of the Current Bonds to take the following action:

(a) The City will (1) take all actions necessary to comply with the provisions of the Code necessary to assure that interest on the Current Bonds will be excludable from gross income for Federal income tax purposes, (2) will take no actions which will violate any of the provisions of the Code, and (3) not use the proceeds of the Current Bonds for any purpose which will cause interest on the Current Bonds or on interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof to become includable in gross income for Federal income tax purposes.

(b) The City hereby certifies that it does not reasonably anticipate that the total principal amount of "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code which the City, or any subordinate entity of the City, will issue during the calendar year during which the Current Bonds are issued, will exceed \$10,000,000; and therefore the City hereby designates the Current Bonds and all interim financing obligations, including, but not limited to the Note, issued pursuant to Section 302 hereof as "qualified tax-exempt obligations".

(c) The City further certifies that the Current Bonds and any and all interim financing obligations of the City are not "private activity bonds" within the meaning of the Code.

(d) The City covenants and agrees that it will not issue, or cause any subordinate entity of the City to issue on the City's behalf, bonds or other obligations considered under the Code to be "tax-exempt obligations" (other than private activity bonds) in the aggregate principal amount in excess of \$5,000,000 during the calendar year in which the Bonds will be issued.

(e) The City covenants and agrees to comply with the rebate requirements on certain excess earnings imposed by Section 148 of the Code, and in the event it is determined by the City, upon the advice of Bond Counsel, that the Construction Account, or any other fund established hereunder, is subject to said rebate requirements and does in fact generate earnings from "non-purpose investments" in excess of the amount which said investments would have earned at a rate equal to the "yield" on the Current Bonds, plus any income attributable to such excess, the City covenants and agrees to rebate to the United States of America any such excess generated from such investments and remit such excess to the United States of America on or before five years from the date of issuance of the Current Bonds, and once every five years thereafter until the final retirement of the Current

Bonds; the last installment, to the extent required, to be made no later than sixty days following the date on which funds sufficient for the complete retirement of the Current Bonds are deposited with any escrow agent. The City further covenants to file any and all reports, if any, as may be required to be filed with the Government with regard to the liability or non-liability of the City as to any such rebate requirements and to maintain records in regard thereto for the period of time required by applicable Treasury regulations.

Section 1002. Severability Clause. If any section, paragraph, clause or provision of this Ordinance shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the remaining provisions of this Ordinance, which shall continue in full force and effect.

Section 1003. All Provisions in Conflict Repealed. All motions, resolutions and orders, or parts thereof, in conflict with the provisions of this Ordinance, are to the extent of such conflict hereby repealed. It is hereby specifically ordered and provided that any proceedings heretofore taken for the issuance of other bonds of the City payable or secured in any manner by all or any part of the income and revenues of said System or any part thereof, and which have not been heretofore sold, are hereby revoked and rescinded, and none of such other bonds shall be issued and delivered. The City covenants to correct by appropriate proceedings any required procedure previously taken invalidly.

Section 1004. Effective Date. This Ordinance shall take effect upon its enactment and publication by title and summary, as provided by law.

Introduced and given first reading on April 5, 2011.

Given second reading and enacted on April 26, 2011.

CITY OF TAYLORSVILLE, KENTUCKY


Mayor

(Seal of City)

Attest:

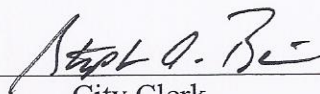

City Clerk

CERTIFICATION

I, the undersigned, hereby certify that I am the duly qualified and acting City Clerk of the City of Taylorsville, Kentucky, and that the foregoing Ordinance is a true copy of an Ordinance duly enacted by the City Commission of said City, signed by the Mayor of said City and attested under Seal by me as City Clerk, at a properly convened meeting of said City Commission held on April 26, 2011, as shown by the official records of said City in my custody and under my control.

I further certify that said meeting was duly held in accordance with all applicable requirements of Kentucky law, including KRS 61.810, 61.815, 61.820 and 61.825, that a quorum was present at said meeting, that said Ordinance has not been modified, amended, revoked or repealed, and that same is now in full force and effect.

IN TESTIMONY WHEREOF, witness my signature as City Clerk and the official Seal of the City this April 26, 2011.



City Clerk

(Seal of City)

EXHIBIT A-1

Schedule of Principal Payments on Series A Bonds

<u>Payment Due</u> <u>January 1</u>	<u>Principal</u> <u>Payment</u>	<u>Payment Due</u> <u>January 1</u>	<u>Principal</u> <u>Payment</u>
2014	\$14,500	2033	\$22,000
2015	15,000	2034	22,500
2016	15,000	2035	23,000
2017	15,500	2036	24,000
2018	16,000	2037	24,500
2019	16,500	2038	25,000
2020	16,500	2039	25,500
2021	17,000	2040	26,000
2022	17,500	2041	26,500
2023	18,000	2042	27,000
2024	18,000	2043	28,000
2025	18,500	2044	28,500
2026	19,000	2045	29,000
2027	19,500	2046	29,500
2028	20,000	2047	30,500
2029	20,500	2048	31,000
2030	21,000	2049	31,500
2031	21,500	2050	32,500
2032	21,500	2051	32,500

EXHIBIT A-2

Schedule of Principal Payments on Series B Bonds

<u>Payment Due</u> <u>January 1</u>	<u>Principal</u> <u>Payment</u>	<u>Payment Due</u> <u>January 1</u>	<u>Principal</u> <u>Payment</u>
2014	\$9,000	2033	\$14,000
2015	9,000	2034	14,500
2016	9,500	2035	15,000
2017	9,500	2036	15,500
2018	10,000	2037	15,500
2019	10,000	2038	16,000
2020	10,500	2039	16,500
2021	10,500	2040	17,000
2022	11,000	2041	17,500
2023	11,000	2042	17,500
2024	11,500	2043	18,000
2025	11,500	2044	18,500
2026	12,000	2045	19,000
2027	12,000	2046	19,500
2028	12,500	2047	20,000
2029	13,000	2048	20,500
2030	13,000	2049	21,000
2031	13,500	2050	21,500
2032	14,000	2051	20,000

EXHIBIT B

(BOND FORM)

**UNITED STATES OF AMERICA
COMMONWEALTH OF KENTUCKY
CITY OF TAYLORSVILLE
WATER AND SEWER REVENUE BONDS, SERIES 2011**

No. R- _____ Interest Rate: _____ % \$ _____

KNOW ALL PERSONS BY THESE PRESENTS:

That the City of Taylorsville (the "City"), acting by and through its City Commission (the "City Commission"), a fifth class city in Spencer County, Kentucky for value received, hereby promises to pay to

the registered owner hereof, or to its registered assigns, solely from the fund hereinafter identified, the sum of

_____ DOLLARS (\$ _____),

on the first day of January, in years and installments as follows:

<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>	<u>Year</u>	<u>Principal</u>
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[Here the printer of the Current Bond will print the maturities of the Current Bonds purchased by the registered Owner]

and in like manner, solely from said fund, to pay interest on the balance of said principal sum from time to time remaining unpaid, at the Interest Rate specified above, semiannually on the first days of January and July in each year, beginning with the first January or July after the date of this Bond, until said sum is paid, except as the provisions hereinafter set forth with respect to prepayment may be and become applicable hereto, both principal and interest being payable, without deduction for exchange or collection charges, in lawful money of the United States of America, at the address of the registered owner shown on the registration book of the City.

This Series __ Bond is issued by the City and part of an issue in the aggregate principal amount of \$1,410,000, consisting of \$860,000 of Series A Bonds and \$550,000 of Series B Bonds, under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky,

including Chapters 58 and 82 of the Kentucky Revised Statutes (collectively the "Act"), and pursuant to a duly enacted Bond Ordinance of the City authorizing same (the "Current Bond Ordinance"), to which Current Bond Ordinance reference is hereby made for a description of the nature and extent of the security thereby created, the rights and limitations of rights of the registered owner of this Bond, and the rights, obligations and duties of the City, for the purpose of financing the cost (not otherwise provided) of the construction of extensions, additions and improvements to the existing combined and consolidated water and sewer system of the City (said existing combined and consolidated water and sewer system, together with said extensions, additions and improvements, being hereinafter referred to as the "System").

This Bond is issued on a parity as to security and source of payment with the outstanding (i) City of Taylorsville Water and Sewer Revenue Bonds, Series 1994A, dated June 21, 1995 (the "1994 Bonds"), authorized by an Ordinance enacted by the City Commission of the City on August 2, 1994 (the "1994 Bond Ordinance"); (ii) City of Taylorsville Water and Sewer Revenue Bonds, Series 1998, dated August 27, 1999 (the "1998 Bonds"), authorized by an Ordinance enacted by the City Commission of the City on August 25, 1998 (the "1998 Bond Ordinance"); (iii) City of Taylorsville Water and Sewer Revenue Bonds, Series 2001, dated August 10, 2001 (the "2001 Bonds"), authorized by an Ordinance enacted by the City Commission of the City on December 14, 2000 (the "2001 Bond Ordinance"); (iv) City of Taylorsville Water and Sewer Revenue Bonds, Series 2004, dated December 23, 2004 (the "2004 Bonds"), authorized by an Ordinance enacted by the City Commission of the City on January 20, 2004 (the "2004 Bond Ordinance"); (v) City of Taylorsville Water and Sewer Revenue Bonds, Series 2008 (In-County Project), dated March 2, 2009 (the "2008 County Bonds"), authorized by an Ordinance enacted by the City Commission of the City on May 6, 2008 (the "2008 County Bond Ordinance"); and (vi) City of Taylorsville Water and Sewer Revenue Bonds, Series 2008 (In-City Project), dated March 2, 2009 (the "2008 City Bonds"), authorized by an Ordinance enacted by the City Commission of the City on May 6, 2008 (the "2008 City Bond Ordinance") [hereinafter the 1994 Bonds, 1998 Bonds, 2001 Bonds, 2004 Bonds, 2008 County Bonds and 2008 City Bonds shall be collectively referred to as the "Prior Second Lien Bonds", and the 1994 Bond Ordinance, the 1998 Bond Ordinance, the 2001 Bond Ordinance, the 2004 Bond Ordinance, the 2008 County Bond Ordinance and the 2008 City Bond Ordinance shall be collectively referred to as the "Prior Second Lien Bond Ordinance"], but subject to the vested rights and priorities in favor of the outstanding Kentucky Infrastructure Authority Loans (the "KIA Loans"). Accordingly, this Bond, together with any bonds ranking on a parity herewith, is payable from and secured by a pledge of the gross revenues to be derived from the operation of the System, after providing for the requirements of the KIA Loans.

This Bond has been issued in full compliance with the Current Bond Ordinance and the Prior Second Lien Bond Ordinance; and this Bond, and any bonds ranking on a parity therewith that may be issued and outstanding under the conditions and restrictions of the Current Bond Ordinance and Prior Second Lien Bond Ordinance, are and will continue to be payable from revenues which shall be set aside in a fund for that purpose and identified as the "City of Taylorsville Water and Sewer Revenue Bond Sinking Fund", created in the Prior Second Lien Bond Ordinance.

This Bond does not constitute an indebtedness of the City within the meaning of any constitutional or statutory provisions or limitations and is payable solely out of the revenues of the System. As provided in the Current Bond Ordinance, the City covenants that so long as any of the Prior Bonds and/or this Bond, are outstanding, the System will be continuously owned and operated

by the City as a revenue producing public undertaking within the meaning of the aforesaid Act for the security and source of payment of the Prior Bonds and of this Bond, and that the City will fix, and if necessary adjust, from time to time, such rates for the services and facilities of the System and will collect and account for the revenues therefrom sufficient to pay promptly the principal of and interest on the Prior Bonds, this Bond and all other bonds ranking on a parity therewith as may be outstanding from time to time, to pay the cost of operation and maintenance of the System and to provide for the depreciation thereof.

The City has reserved the right to issue additional bonds ranking on a parity as to security and source of payment with this Bond, if necessary in order to complete the aforesaid extensions, additions and improvements to the System and to finance future extensions, additions and improvements to the System, provided the City has met the requirements of the Current Bond Ordinance.

This Bond shall be registered as to principal and interest in the name of the owner hereof, after which it shall be transferable only upon presentation to the City Clerk of the City as the Bond Registrar, with a written transfer duly acknowledged by the registered owner or its duly authorized attorney, which transfer shall be noted upon this Bond and upon the registration book of the City kept for that purpose.

The City, at its option, shall have the right to prepay, on any interest payment date on and after January 1, 2020, in inverse chronological order of the installments due on this Bond, the entire principal amount of this Bond then remaining unpaid, or such lesser portion thereof, in a multiple of One Hundred Dollars (\$100), as the City may determine, at a price in an amount equivalent to the principal amount to be prepaid plus accrued interest to the date of prepayment, without any prepayment premium. Notice of such prepayment shall be given by certified mail to the registered owner of this Bond or its assignee, at least 30 days prior to the date fixed for prepayment. Notice of such prepayment may be waived with the written consent of the registered owner of this Bond.

So long as the registered owner of this Bond is the United States of America, or any agency thereof, the entire principal amount of this Bond, or installments in multiples of \$100, may be prepaid at any time in inverse chronological order of the installments due.

Upon default in the payment of any principal or interest payment on this Bond, or upon failure by the City to comply with any other provision of this Bond or with any provision of the Current Bond Ordinance, the registered owner may, at its option, institute all rights and remedies provided by law or by said Current Bond Ordinance.

It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Bond, do exist, have happened and have been performed in due time, form and manner as required by law, and that the face amount of this Bond, together with all other obligations of the City, does not exceed any limit prescribed by the Constitution or Statutes of the Commonwealth of Kentucky.

IN WITNESS WHEREOF said City of Taylorsville, by its City Commission, has caused this Bond to be executed by its Mayor, its corporate seal to be hereunto affixed, and attested by its City Clerk, on the date of this Bond, which is

CITY OF TAYLORSVILLE, KENTUCKY

By _____
Mayor

Attest:

City Clerk

(Seal of City)

PROVISION FOR REGISTRATION

This Bond shall be registered on the registration book of the City kept for that purpose by the City Clerk, as Bond Registrar, upon presentation hereof to said City Clerk, who shall make notation of such registration in the registration blank, and this Bond may thereafter be transferred only upon written transfer acknowledged by the registered owner or its attorney, such transfer to be made on said book and endorsed hereon.

Date of Registration	Name of Registered Owner	Signature of Bond Registrar

ASSIGNMENT

For value received, this Bond is hereby assigned, without recourse and subject to all of its terms and conditions, unto _____, this ____ day of _____, _____.

By: _____

EXHIBIT C

REQUISITION CERTIFICATE

Re: City of Taylorsville Water and Sewer Revenue Bonds, Series 2011, in the principal amount of \$1,410,000

The undersigned hereby certify as follows:

1. That they are the signatories required for construction and/or administrative draws pursuant to the Bond Ordinance enacted by the Issuer, City of Taylorsville, Kentucky (the "City").
2. That the named firms and/or persons set forth on Exhibit A attached hereto are now entitled to the aggregate sum of \$ _____, itemized as set forth in said Exhibit A and as per approved invoices attached hereto.
3. That upon said amount being lent to said City and/or obtained by said City from the proceeds of the Current Bonds and/or other sources, the undersigned approve such expenditure and the payment of said amounts to said firms and/or persons, either directly or from amounts on deposit in the "City of Taylorsville Water and Sewer Construction Account".
4. That we hereby certify that we have carefully inspected the work and, as a result of our inspection and to the best of our knowledge and belief, the amounts shown in this Requisition Certificate are correct and the work has been performed in accordance with the agreements between the City and the parties requesting payment.

IN TESTIMONY WHEREOF, witness the signature of the undersigned, this ____ day of _____, 20__.

CITY OF TAYLORSVILLE, KENTUCKY

SISLER - MAGGARD ENGINEERING, PLLC

By _____
Mayor

By _____
Registered Professional Engineer
State of Kentucky No. _____

Approved on _____

Approved on _____

RURAL DEVELOPMENT

Amount expended heretofore \$ _____

By _____
Authorized RD Official

Amount approved herein _____

Total _____

Approved on _____

EXHIBIT A TO REQUISITION CERTIFICATE

Name of Entity/Person

Amount